



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

September 29, 2003

S. 1680

Defense Production Act Reauthorization of 2003

*As ordered reported by the Senate Committee on Banking, Housing, and Urban Affairs
on September 23, 2003*

The Defense Production Reauthorization Act of 2003 would extend the authorities of the Defense Production Act of 1950 (DPA) for an additional five years through September 30, 2008, and would authorize all necessary appropriations for that period. The DPA provides the President the authority to require preferential performance on contracts and orders to meet approved national defense requirements; and to allocate materials, services and facilities as necessary to promote the national defense in a major national emergency (Title I); authorizes loan guarantees, direct loans, direct purchases, and purchase guarantees for those goods necessary for national defense (Title III); and allows the President to void international mergers that would adversely affect national security (Title VII). These authorities are set to expire on September 30, 2003. CBO estimates that implementing this bill would cost about \$110 million over the 2004-2008 period, assuming appropriation of the necessary amounts. The bill would not affect direct spending or receipts.

The bill would authorize the appropriation of such sums as necessary for purchases and purchase guarantees under Title III to correct for shortfalls in domestic industrial capacity. Although the DPA gives the Department of Defense (DoD) the authority to make direct loans and loan guarantees, under an agreement with the Office of Management and Budget, DoD does not use those authorities.

In recent years, DoD has used the authority to purchase equipment that it furnishes to contractors for manufacturing radiation-hardened microprocessors. Section 4 of this bill would increase the limit on total obligations for this purpose from \$50 million to \$200 million, permitting the expenditure of funds requested by the President for fiscal year 2004. A significant portion of spending for this purpose, however, will come from funds already appropriated for fiscal year 2003. Thus, the estimated costs for implementing this bill include only the additional outlays that would come from future appropriations.

Appropriations for purchase and purchase guarantees under the DPA have averaged about \$23 million a year over the 1992-2003 period, ranging from \$100 million in 1994 to

\$3 million in 2001. (A purchase guarantee is a commitment to buy a specified quantity of defense goods if the contractor cannot sell it elsewhere.) No money was appropriated for this purpose in 1992, 1993, or over the 1996-1999 period. More recently, the Congress appropriated \$40 million in 2002 and \$72 million in 2003 for these purposes. The Administration has requested an appropriation of \$68 million for 2004. Because of the sharp variations in annual funding, specific yearly amounts for the indefinite authorization are difficult to project.

Based on information from DoD and the historical average over the past 10 years, CBO estimates that extending the authorization would require about \$160 million in appropriations for the five-year period covered by the bill. Based on historical spending patterns, CBO estimates outlays from that funding would total \$110 million over the 2004-2008 period.

To date, no funds have been appropriated for other provisions of the DPA. As a result, CBO has no basis for estimating any additional costs that could be triggered by extending its authorization for five more years.

Section 4 of the Unfunded Mandates Reform Act excludes from the application of that act any legislative provisions that are necessary for the national security. CBO has determined that the provisions of the DPA would fall under that exclusion.

On March 28, 2003, CBO transmitted a cost estimate for H.R. 1280, the Defense Production Reauthorization Act of 2003, as ordered reported by the House Committee on Financial Services on March 26, 2003. The two versions of the bill are similar; however, this bill would extend the authorities for five years, one year longer compared to the extension in H.R. 1280.

The CBO staff contacts are David Newman (for federal costs) and Adam Talaber (for the private-sector impact). This estimate was approved by Peter H. Fontaine, Deputy Assistant Director for Budget Analysis.